

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**CGS ADMINISTRATORS, LLC,  
CLAIMED SOME UNALLOWABLE  
MEDICARE PENSION COSTS  
THROUGH ITS  
INCURRED COST PROPOSALS**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Amy J. Frontz  
Deputy Inspector General  
for Audit Services**

**August 2021  
A-07-20-00593**

# *Office of Inspector General*

<https://oig.hhs.gov/>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These audits help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

## **THIS REPORT IS AVAILABLE TO THE PUBLIC**

at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## Report in Brief

Date: August 2021

Report No. A-07-20-00593

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Audit

The Centers for Medicare & Medicaid Services (CMS) reimburses Medicare contractors for a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans.

The HHS, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare contractors through Incurred Cost Proposals (ICPs).

Previous OIG audits found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

Our objective was to determine whether the calendar years (CYs) 2012 through 2016 qualified defined-benefit plan pension costs (herein referred to as “pension costs”) that CGS Administrators, LLC (CGS), claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

### How OIG Did This Audit

We reviewed \$4.0 million of pension costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2012 through 2016.

## CGS Administrators, LLC, Claimed Some Unallowable Medicare Pension Costs Through Its Incurred Cost Proposals

### What OIG Found

CGS claimed pension costs of \$4.0 million for Medicare reimbursement, through its ICPs, for CYs 2012 through 2016; however, we determined that the allowable Cost Accounting Standards-based pension costs during this period were \$3.7 million. The difference, \$293,893, represented unallowable Medicare pension costs that CGS claimed on its ICPs for CYs 2012 through 2016. CGS claimed these unallowable Medicare pension costs primarily because it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement. Specifically, CGS used an incorrect allocable pension cost when calculating the indirect cost rates.

### What OIG Recommends and Auditee Comments

We recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$293,893 for CYs 2012 through 2016.

In its formal written comments, CGS did not directly refer to the monetary amount in our recommendation but did say that it would work with CMS to ensure that its final settlement of contract costs is appropriate. However, information CGS provided to us after issuance of our draft caused us to increase our recommended pension cost adjustment from \$292,174 to \$293,893 (a \$1,719 change).

**TABLE OF CONTENTS**

INTRODUCTION..... 1

    Why We Did This Audit..... 1

    Objective ..... 1

    Background ..... 1

        CGS Administrators, LLC, and Medicare ..... 1

        Medicare Reimbursement of Pension Costs..... 2

        Previous Audit of Allocable Pension Costs..... 2

        Incurred Cost Proposal Audits ..... 3

    How We Conducted This Audit..... 3

FINDING ..... 3

    Allocable Other Segment Pension Costs Overstated ..... 4

    Calculation of Allowable Pension Costs ..... 4

RECOMMENDATION ..... 5

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE ..... 5

APPENDICES

    A: Audit Scope and Methodology ..... 7

    B: Federal Requirements Related to  
        Reimbursement of Pension Costs..... 9

    C: Allocable Pension Costs  
        for Blue Cross Blue Shield of South Carolina, LLC,  
        for Calendar Years 2013 Through 2016 ..... 10

    D: Auditee Comments..... 12

## INTRODUCTION

### WHY WE DID THIS AUDIT

Medicare contractors are eligible to be reimbursed a portion of their pension costs, which are funded by the annual contributions that these contractors make to their pension plans. The amount of pension costs that the Centers for Medicare & Medicaid Services (CMS) reimburses to the contractors is determined by the allocability and cost reimbursement principles contained in the Federal Acquisition Regulation (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts. Previous Office of Inspector General (OIG) audits found that Medicare contractors did not always comply with Federal requirements when claiming pension costs for Medicare reimbursement.

At CMS's request, the Department of Health and Human Services, OIG, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit (PRB), and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) and CAS- and FAR-covered contracts through Final Administrative Cost Proposals, Incurred Cost Proposals (ICPs), or both.

For this audit, we focused on one Medicare contractor, CGS Administrators, LLC (CGS). In particular, we examined the Other segment<sup>1</sup> pension costs that CGS claimed for Medicare reimbursement and reported on its ICPs.<sup>2</sup>

### OBJECTIVE

Our objective was to determine whether the calendar years (CYs) 2012 through 2016 qualified defined-benefit plan pension costs (herein referred to as "pension costs") that CGS claimed for Medicare reimbursement, and reported on its ICPs, were allowable and correctly claimed.

### BACKGROUND

#### CGS Administrators, LLC, and Medicare

During our audit period, CGS was a subsidiary of Blue Cross Blue Shield of South Carolina (BCBS South Carolina), whose home office is in Columbia, South Carolina. CGS performed Medicare work upon being awarded the MAC contracts for Medicare Durable Medical Equipment (DME)

---

<sup>1</sup> The Other segment represents the difference between the Total Company and the Medicare segments as detailed in Appendix C.

<sup>2</sup> CGS did not participate in the qualified defined-benefit pension plan; however, CGS received home office allocations (allocated from the Other segment) from Blue Cross Blue Shield of South Carolina's (BCBS South Carolina) participation in the qualified defined-benefit pension plan. During our audit period, CGS was a subsidiary of BCBS South Carolina.

Jurisdiction C and Medicare Parts A and B Jurisdiction 15 (including home health and hospice services), effective September 27, 2006, and July 8, 2010, respectively.<sup>3, 4</sup> CGS continues to perform Medicare work for DME Jurisdiction C (re-awarded August 31, 2012) and Medicare Parts A and B Jurisdiction 15.

The disclosure statement that CGS submits to CMS states that CGS uses pooled cost accounting. Medicare contractors use pooled cost accounting to calculate the indirect cost rates (whose computations include pension and PRB costs) that they submit on their ICPs. Medicare contractors use the indirect cost rates to calculate the contract costs that they report on their ICPs. In turn, CMS uses these indirect cost rates in determining the final indirect cost rates for each contract.<sup>5</sup>

Although the CGS employees did not participate in BCBS South Carolina's qualified-defined benefit pension plan, certain costs from BCBS South Carolina's home office were allocated to the CGS Medicare segment.

### **Medicare Reimbursement of Pension Costs**

CMS reimburses a portion of the annual contributions that contractors make to their pension plans. The pension costs are included in the computation of the indirect cost rates reported on the ICPs. In turn, CMS uses indirect cost rates in reimbursing costs under cost-reimbursement contracts. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413 and (2) funded as specified by part 31 of the FAR. In claiming costs, contractors must follow cost reimbursement principles contained in the FAR, the CAS, and the Medicare contracts.

### **Previous Audit of Allocable Pension Costs**

We previously reviewed BCBS South Carolina's allocable pension costs (A-07-17-00509, Aug. 28, 2017). Our previous BCBS South Carolina audit report identified Other segment allocable pension costs that its subsidiaries' Medicare segments should have used when calculating the subsidiaries' indirect cost rates for CYs 2006 through 2012. We recommended that BCBS South

---

<sup>3</sup> Medicare DME Jurisdiction C consists of the States of Alabama, Arkansas, Colorado, Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia, and the U.S. Territories of Puerto Rico and the U.S. Virgin Islands.

<sup>4</sup> Medicare Parts A and B Jurisdiction 15 consists of the States of Kentucky and Ohio. Jurisdiction 15 also includes home health and hospice services provided in the States of Colorado, Delaware, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, North Dakota, Pennsylvania, South Dakota, Utah, West Virginia, and Wyoming, and in the District of Columbia.

<sup>5</sup> For each CY, each Medicare contractor submits to CMS an ICP that reports the Medicare direct and indirect costs that the contractor incurred during that year. The ICP and supporting data provide the basis for the CMS Contracting Officer and the Medicare contractor to determine the final billing rates for allowable Medicare costs.

Carolina decrease the Medicare segment pension costs used to calculate its indirect cost rates by \$6,193,748 for CYs 2006 through 2012.

### **Incurred Cost Proposal Audits**

At CMS's request, WatkinsMeegan, LLC (Meegan), Kearney & Company, P.C. (Kearney), Mayer Hoffman McCann P.C. (McCann), and CliftonLarsonAllen, LLP (Allen), performed audits of the ICPs that CGS submitted for CYs 2012 through 2016. The objectives of these ICP audits were to determine whether costs were allowable in accordance with the FAR, the CAS, and the Department of Health and Human Services Acquisition Regulation System.

For our current audit, we relied on the Meegan, Kearney, McCann, and Allen ICP audit findings and recommendations when computing the allowable pension costs discussed in this report.

We incorporated the results of the Meegan, Kearney, McCann, and Allen ICP audits into our computations of the audited indirect cost rates, and ultimately the pension costs claimed, for the contracts subject to the FAR. CMS will use our report on allowable pension costs, as well as the Meegan, Kearney, McCann, and Allen ICP audit reports, to determine the final indirect cost rates and the total allowable contract costs for CGS for CYs 2012 through 2016. The cognizant Contracting Officer will perform a final settlement with the contractor to determine the final indirect cost rates. These rates ultimately determine the final costs of each contract.<sup>6</sup>

### **HOW WE CONDUCTED THIS AUDIT**

We reviewed \$4,003,009 of pension costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2012 through 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

### **FINDING**

CGS claimed pension costs of \$4,003,009 for Medicare reimbursement, through its ICPs, for CYs 2012 through 2016; however, we determined that the allowable CAS-based pension costs

---

<sup>6</sup> In accordance with FAR 42.705-1(b)(5)(ii) and FAR 42.705-1(b)(5)(iii)(B), the cognizant Contracting Officer shall "[p]repare a written indirect cost rate agreement conforming to the requirements of the contracts" and perform a "[r]econciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement," respectively.



during this period were \$3,709,116.<sup>7</sup> The difference, \$293,893, represented unallowable Medicare pension costs that CGS claimed on its ICPs for CYs 2012 through 2016. CGS claimed these unallowable Medicare pension costs primarily because it used incorrect indirect cost rates when claiming pension costs for Medicare reimbursement. Specifically, CGS used an incorrect allocable pension cost when calculating the indirect cost rates.

### **ALLOCABLE OTHER SEGMENT PENSION COSTS OVERSTATED**

During the current audit, we calculated the allocable Other segment pension costs for CYs 2012 through 2016 in accordance with Federal requirements.<sup>8</sup> We determined that the allocable Other segment pension costs for CYs 2012 through 2016 totaled \$246,970,412. CGS reported that its Other segment allocable pension costs, as identified in its actuarial computations, totaled \$252,926,615. Therefore, CGS overstated the allocable Other segment pension costs by \$5,956,203. This overstatement occurred because of differences in the calculations of the assignable pension costs. More specifically, differences in the amortization calculations resulted in different assignable pension cost calculations.

Table 1 below shows the differences between the allocable Medicare segment CAS-based pension costs that we determined for CYs 2012 through 2016 and the Medicare segment allocable pension costs that CGS calculated for the same time period.

**Table 1: Allocable Other Segment Pension Costs**

<b>CY</b>	<b>Allocable Per Audit</b>	<b>Per CGS</b>	<b>Difference</b>
2012	\$46,652,450	\$47,196,542	(\$544,092)
2013	50,540,842	51,688,048	(1,147,206)
2014	50,183,151	52,031,033	(1,847,882)
2015	51,837,830	52,894,784	(1,056,954)
2016	47,756,139	49,116,208	(1,360,069)
<b>Total</b>	<b>\$246,970,412</b>	<b>\$252,926,615</b>	<b>(\$5,956,203)</b>

### **CALCULATION OF ALLOWABLE PENSION COSTS**

We used the Other segment (Appendix C) allocable pension costs to adjust the indirect cost rate (i.e., the general and administrative rate) to determine the allowable pension costs for Medicare reimbursement for CYs 2012 through 2016.

<sup>7</sup> These claimed and allowable pension costs were associated with the cost reimbursement and variable time and material portions of the contracts.

<sup>8</sup> We identified the allocable Other segment pension cost for CY 2012 in our previous audit (A-07-17-00509, Aug. 28, 2017). For the current audit, we incorporated these allocable pension costs into the indirect cost rates to determine the allowable pension costs.

CGS claimed Medicare pension costs of \$4,003,009 on its ICPs for CYs 2012 through 2016. After incorporating the results of the Meegan, Kearney, McCann, and Allen ICP audits and our adjustments to the indirect cost rates, we determined that the allowable CAS-based pension costs for CYs 2012 through 2016 were \$3,709,116. Thus, CGS claimed \$293,893 of unallowable Medicare pension costs on its ICPs for CYs 2012 through 2016. This overclaim occurred specifically because CGS based its claim for Medicare reimbursement on incorrect pension costs included in the indirect cost rates on the ICPs.

We calculated the allowable Medicare pension costs based on separately computed CAS-based pension costs in accordance with CAS 412 and 413. For details on the Federal requirements, see Appendix B.

Table 2 below compares the Medicare pension costs that we calculated (using our adjusted indirect cost rates) to the pension costs that CGS claimed for Medicare reimbursement for CYs 2012 through 2016.

**Table 2: Comparison of Allowable Pension Costs and Claimed Pension Costs<sup>9</sup>**

<b>CY</b>	<b>Allowable Per Audit</b>	<b>Per CGS</b>	<b>Difference</b>
2012	\$455,357	\$539,103	(\$83,746)
2013	684,535	717,208	(32,673)
2014	774,819	825,977	(51,158)
2015	914,466	959,353	(44,887)
2016	879,939	961,368	(81,429)
<b>Total</b>	<b>\$3,709,116</b>	<b>\$4,003,009</b>	<b>(\$293,893)</b>

**RECOMMENDATION**

We recommend that CGS Administrators, LLC, work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$293,893 for CYs 2012 through 2016.

**AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, CGS did not directly refer to the monetary amount in our recommendation but did say that it would work with CMS to ensure that its final settlement of contract costs is appropriate. CGS’s comments appear in their entirety as Appendix D.<sup>10</sup>

<sup>9</sup> Our calculation of allowable costs does not appear in this report because those indirect cost rate computations that CGS used in its ICPs, and to which we referred as part of our audit, are proprietary information.

<sup>10</sup> Although BCBS South Carolina, of which CGS is a subsidiary, provided written comments on this draft report, for consistency we associate these comments with CGS.

After issuance of our draft report, we engaged in discussions with CGS that caused us to revise the monetary aspect of our finding and recommendation. This revision resulted in an increase of \$1,719 in the calculation of the pension costs, of which we made CGS aware on May 19, 2021. CGS based its comments on our draft report on that revised dollar amount. Therefore, we continue to recommend that CGS work with CMS to ensure that its final settlement of contract costs reflects a decrease in Medicare pension costs of \$293,893 ( $\$292,174 + \$1,719$ ) for CYs 2012 through 2016.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed \$4,003,009 of Medicare pension costs that CGS claimed for Medicare reimbursement on its ICPs for CYs 2012 through 2016.

Achieving our objective did not require that we review CGS's overall internal control structures. We reviewed the internal controls related to the pension costs that were included in CGS's ICPs and ultimately used as the basis for Medicare reimbursement, to ensure that these costs were allocable in accordance with the CAS and allowable in accordance with the FAR.

We performed fieldwork at BCBS South Carolina located in Columbia, South Carolina.

### METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed information provided by CGS to identify the amounts of pension costs used in CGS's calculation of indirect cost rates for CYs 2012 through 2016;
- reviewed the results of the Meegan, Kearney, McCann, and Allen ICP audits and incorporated those results into our calculations of allowable pension costs;
- engaged the CMS Office of the Actuary, which provides technical actuarial advice, to calculate the allocable pension costs based on the CAS (the calculations were based on separately computed CAS-based pension costs for the Other segment);
- reviewed the CMS actuaries' methodology and calculations; and
- provided the results of our audit to CGS officials on March 25, 2021.

We performed this audit in conjunction with the following audits and used the information obtained during those audits:

- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Supplemental Executive Retirement Plan III Costs Through Its Incurred Cost Proposals (A-07-21-00608);*
- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Excess Plan Costs Through Its Incurred Cost Proposals (A-07-21-00612);* and

- *CGS Administrators, LLC, Claimed Some Unallowable Medicare Postretirement Benefit Costs Through Its Incurred Cost Proposals (A-07-21-00613).*

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

## **APPENDIX B: FEDERAL REQUIREMENTS RELATED TO REIMBURSEMENT OF PENSION COSTS**

### **FEDERAL REGULATIONS**

Federal regulations (FAR 31.205-6(j)) require Medicare contractors to measure, assign, and allocate the costs of all defined-benefit pension plans in accordance with CAS 412 and 413.

Federal regulations (FAR 52.216-7(a)(1)) address the invoicing requirements and the allowability of payments as determined by the Contracting Officer in accordance with FAR subpart 31.2.

Federal regulations (CAS 412) (as amended) address the determination and measurement of pension cost components. These regulations also address the assignment of pension costs to appropriate accounting periods.

Federal regulations (CAS 413) (as amended) address the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

### **MEDICARE CONTRACTS**

The Medicare contracts require CGS to submit invoices in accordance with FAR 52.216-7, "Allowable Cost & Payment." (See our citation to FAR 52.216-7(a)(1) in "Federal Regulations" above.)

**APPENDIX C: ALLOCABLE PENSION COSTS  
FOR BLUE CROSS BLUE SHIELD OF SOUTH CAROLINA, LLC,  
FOR CALENDAR YEARS 2013 THROUGH 2016**

Date	Description		Total Company	"Other" Segment	Palmetto Segment	CDS Segment
2013	Contributions	<u>1/</u>	\$70,000,000	\$70,000,000	\$0	\$0
	Discount for Interest	<u>2/</u>	(\$7,396,984)	(\$7,396,984)	\$0	\$0
January 1, 2013	Present Value Contributions	<u>3/</u>	\$62,603,016	\$62,603,016	\$0	\$0
	Prepayment Credit Applied	<u>4/</u>	\$57,696,653	\$50,540,842	\$5,321,905	\$1,833,906
	Present Value of Funding	<u>5/</u>	\$120,299,669	\$113,143,858	\$5,321,905	\$1,833,906
January 1, 2013	CAS Funding Target	<u>6/</u>	\$57,696,653	\$50,540,842	\$5,321,905	\$1,833,906
	Percentage Funded	<u>7/</u>		100.00%	100.00%	100.00%
	Funded Pension Cost	<u>8/</u>		\$50,540,842	\$5,321,905	\$1,833,906
	Allowable Interest	<u>9/</u>		\$0	\$0	\$0
2013	Allocable Pension Cost	<u>10</u>		\$50,540,842	\$5,321,905	\$1,833,906

Date	Description		Total Company	"Other" Segment	Palmetto Segment	CDS Segment
2014	Contributions		\$65,000,000	\$65,000,000	\$0	\$0
	Discount for Interest		(\$6,510,961)	(\$6,510,961)	\$0	\$0
January 1, 2014	Present Value Contributions		\$58,489,039	\$58,489,039	\$0	\$0
	Prepayment Credit Applied		\$57,221,738	\$50,183,151	\$5,233,789	\$1,804,798
	Present Value of Funding		\$115,710,777	\$108,672,190	\$5,233,789	\$1,804,798
January 1, 2014	CAS Funding Target		\$57,221,738	\$50,183,151	\$5,233,789	\$1,804,798
	Percentage Funded			100.00%	100.00%	100.00%
	Funded Pension Cost			\$50,183,151	\$5,233,789	\$1,804,798
	Allowable Interest			\$0	\$0	\$0
2014	Allocable Pension Cost			\$50,183,151	\$5,233,789	\$1,804,798

Date	Description		Total Company	"Other" Segment	Palmetto Segment	CDS Segment
2015	Contributions		\$45,000,000	\$45,000,000	\$0	\$0
	Discount for Interest		(\$4,275,631)	(\$4,275,631)	\$0	\$0
January 1, 2015	Present Value Contributions		\$40,724,369	\$40,724,369	\$0	\$0
	Prepayment Credit Applied		\$58,854,179	\$51,837,830	\$5,354,797	\$1,661,552
	Present Value of Funding		\$99,578,548	\$92,562,199	\$5,354,797	\$1,661,552
January 1, 2015	CAS Funding Target		\$58,854,179	\$51,837,830	\$5,354,797	\$1,661,552
	Percentage Funded			100.00%	100.00%	100.00%
	Funded Pension Cost			\$51,837,830	\$5,354,797	\$1,661,552
	Allowable Interest			\$0	\$0	\$0
2015	Allocable Pension Cost			\$51,837,830	\$5,354,797	\$1,661,552

Date	Description	Total Company	"Other" Segment	Palmetto Segment	CDS Segment
2016	Contributions	\$50,000,000	\$50,000,000	\$0	\$0
	Discount for Interest	(\$4,649,079)	(\$4,649,079)	\$0	\$0
January 1, 2016	Present Value Contributions	\$45,350,921	\$45,350,921	\$0	\$0
	Prepayment Credit Applied	\$54,236,476	\$47,756,139	\$4,824,248	\$1,656,089
	Present Value of Funding	\$99,587,397	\$93,107,060	\$4,824,248	\$1,656,089
January 1, 2016	CAS Funding Target	\$54,236,476	\$47,756,139	\$4,824,248	\$1,656,089
	Percentage Funded		100.00%	100.00%	100.00%
	Funded Pension Cost		\$47,756,139	\$4,824,248	\$1,656,089
	Allowable Interest		\$0	\$0	\$0
2016	Allocable Pension Cost		\$47,756,139	\$4,824,248	\$1,656,089

## ENDNOTES

- 1/ We obtained these Total Company contribution amounts and dates of deposit from Internal Revenue Service Form 5500 reports. These contributions include deposits made during the CY. We determined the contributions allocated to the Medicare segment during the pension segmentation reviews (A-07-20-00586 and A-07-20-00587). The amounts shown for the Other segment represent the difference between the Total Company and the Medicare segments.
- 2/ We subtracted the interest that was included in the contributions deposited after the beginning of the valuation year to discount the contributions back to their beginning-of-the-year value. For purposes of this Appendix, we computed the interest as the difference between the present value of contributions (at the CAS valuation interest rate) and actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to the first day of the CY.
- 4/ A prepayment credit represents the accumulated value of premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit is carried forward, with interest, to fund future CAS pension costs.
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at the first day of the CY.
- 6/ The CAS funding target must be funded by contributions made during the current accounting period or prepaid contributions to satisfy the funding requirement of the FAR 31.205-6(j)(2)(i).
- 7/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the CY. Because any funding in excess of the CAS funding target is accounted for as a prepayment in accordance with CAS 412.50(c)(1), the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimal places.
- 8/ We computed the funded CAS-based pension cost as the CAS funding target multiplied by the percent funded.
- 9/ We assumed that interest on the funded CAS-based pension cost, less the prepayment credit, accrues in the same proportion as the interest on contributions bears to the present value of contributions. However, we limited the interest in accordance with FAR 31.205-6(j)(2)(iii), which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target, less the prepayment credit, were funded in four equal installments deposited within 30 days after the end of the quarter.
- 10/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.





July 16, 2021

BlueCross BlueShield of South Carolina  
1-20 East at Alpine Road  
Columbia, SC 29219-0001  
803-788-0222

SouthCarolinaBlues.com

Patrick J. Cogley  
Regional Inspector General for Audit Services  
Office of Audit Services, Region VII  
601 East 12<sup>th</sup> Street, Room 0429  
Kansas City, MO 64106

Report Numbers:

A-07-20-00592

A-07-20-00593

A-07-20-00594

A-07-21-00608

A-07-21-00609

A-07-21-00610

A-07-21-00611

A-07-21-00612

A-07-21-00613

A-07-21-00614

A-07-21-00615

A-07-21-00616

Dear Mr. Cogley:

We are in receipt of the draft reports referenced above.

As recommended in each report, we will work with CMS to ensure costs are appropriate upon final settlement of the Incurred Cost Proposal reports.

Sincerely,

/Lori Hair/

Lori Hair  
Vice President, Controller and Assistant Treasurer  
Blue Cross and Blue Shield of South Carolina

Cc: Bruce Hughes, Celerian Group  
Michael Mizeur, Chief Financial Officer